SENT BY:Xerox Telecopier 7020 ; 9-17-96 ; 22:38 ; 6144667366→ 2025300518;# 2

CC 96-45

JOINT BOARD ON UNIVERSAL SERVICE

September 13, 1996
Washington, D.C.

RECEIVED
OCT 3 1996
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

EX PARTE OR LATE FILED

TESTIMONY OF JOLYNN BARRY BUTLER
COMMISSIONER
PUBLIC UTILITIES COMMISSION OF OHIO
180 EAST BROAD STREET
COLUMBUS OHIO 43215-3793

RECOVERY OF INTERSTATE LOOP COSTS

Caveats:

1. I am not speaking today for NARUC or the Ohio Commission, although I certainly hope that what I say will not be inconsistent with official positions of those organizations. The views expressed today are strictly my own. I can't blame them on anyone else.

2. I am not and do not claim to be an expert on access issues.

The FCC has termed its rulemakings on the implementation of the 1996 Federal Telecommunications Act a "trilogy," made up of :

a. interconnection (96-98)
b. universal service, and
c. access charge reform.

As an aside, we might want to amend our terminology to call this a "quartet", which would appropriately indicate the relationship of the other three parts to separations reform. There is no doubt in anyone's mind that the issues addressed in 96-98 and those to be addressed in the universal service and access charge reform dockets and separations reform are intertwined, interrelated and interdependent, the trilogy of "I" words. Question: Where do you start, if each impacts the other? There is no right answer. However, it is logical to start with interconnection as the FCC has done, because of the Congressionally imposed deadlines. The Interconnection order itself recognized the interrelated natures of these issues and took interim steps to rationalize the outcomes of the order to avoid any immediate impacts on universal service.

How are the issues interrelated? I am focused today on one aspect, only. The Interconnection order set the rules of the game for local competition. The rules include parameters for pricing of services for resale and pricing of unbundled elements. One issue raised in the interconnection debate was whether resellers or purchasers of unbundled elements should pay interstate access charges if they would also be providing interexchange services.

This is an issue because if a competitor can avoid access charges by buying and recombining unbundled elements, it obtains a competitive advantage. Since local exchange "access" through the rules for local exchange competition is priced lower than interexchange access charges, there's an economic incentive to "arbitrage" with both a competitive advantage to the arbitrageur and a loss of revenue to the incumbent LEC.

Thus there are both economic policy and practical reasons to drive down interstate access prices -- but reductions in the access revenue stream to incumbent LECs will put upward pressure on local rates. If local rates are allowed to rise -- or if access charges to carriers are reduced with a concomitant increase in the subscriber line charge -- the effect may be a significant impact on the ability of some customers to maintain local service -- with a resulting impact on universal service.

So, now that I've told you what you already know, what's the point? the point is simple -- to remind you that you cannot consider universal service issues in a vacuum, without at least contemplating the potential impacts of access charge reform.

Rumors abound about the Commission's desired outcome for the third part of the trilogy. One such rumor is that the FCC wants to eventually have one "access" rate for local and long distance carriers to eliminate the pressure to bypass the LEC and to eliminate the incentive for arbitrage. I must admit that this goal makes sense. However, other rumors exist about how the FCC intends to "make up" the revenue loss that a reduction or elimination of interstate access charges would cause the LECs. One speculation is that the revenue difference would be made up by increasing the subscriber line charge.

Let me suggest two things: First, consumers do not expect that the "benefits" of the new competitive market in telecommunications will include significant local rate increases; and second, if, as expected, the goal of part 3 of the Trilogy (the Access Reform Proceeding) is to reduce or eliminate interstate access charges, then I urge the Joint Board to determine what, if any impact such reduction would have on subscribership -- and the concomitant issues raised for Universal Service.

I am not suggesting that the entire revenue stream needs to be made up. Although in some cases and for some companies interstate access rates may provide a level of subsidy for local service, we in Ohio found for one large local exchange company that all local loop costs were covered by local rates for all but the most remote rural customers. And we were recently able to eliminate intrastate carrier common line charges for that company <u>without</u> any <u>rate rebalancing</u> and therefore <u>with no impact</u> on subscribership rates or universal service goals. On the other hand, there are companies in Ohio that depend heavily on the revenue from interstate access charges – for some of our smaller companies, interstate access revenue accounts for 70-80% of gross revenues. A loss of such a significant proportion of overall revenue could not fail to have an impact on local rates.

The moral is that there is not a "one size fits all" solution to this complicated problem. The Access Reform dilemma may well be a significant piece in the universal service puzzle, which merits close investigation before a national policy is developed. And, if the national policy resolution to the access charge reform issue has a potential impact on local rates, flexibility should be maintained for the states to examine the local rate impacts on a case by case basis in order to make appropriate -- and different -- resolutions for different circumstances.

In conclusion, interconnection, universal service and access reform are interrelated in a most complex and perplexing way. It is imperative that the Joint Board consider the potential impact of access reform on local rates before closing the books on this docket.

Thank you.